

WASHINGTON – This morning, the House Ways and Means Committee unanimously approved [H.R. 674](#), a bipartisan bill led by Reps. Earl Blumenauer and Wally Herger to repeal the 3% withholding requirement on payments made to vendors by government entities. Under Section 3402(t) of the Internal Revenue Code, beginning next year, federal, state, and local governments with more than \$100 million in annual expenditures will be required to withhold 3% of their payments for goods and services. The Blumenauer-Herger repeal bill protects cash-strapped state and local governments as well as the private businesses that contract with them from the new withholding requirement.

“The 3% withholding requirement hurts small businesses and costs jobs,” **said Rep. Earl Blumenauer.** “Many government contractors are small businesses whose profit margins are less than 3%, which means that the withholding requirement would create serious cash flow problems and disrupt their ability to provide goods and services. Worse, the cost to the federal government of simply implementing the withholding requirement will be greater than any revenue raised through increased tax compliance. Efforts to close the tax gap are important, but they should be targeted at those who are failing to pay taxes rather than imposing higher costs on law-abiding businesses.”

Although the 3% withholding requirement does not take effect until Jan. 1, 2012, business and government contracting processes are already affected by this damaging requirement, making swift Congressional action to repeal it necessary. Oregon businesses are already wrestling with these requirements.

“Three percent withholding will be especially burdensome for small shipyards,” **said Frank Foti, CEO of Oregon-based Vigor Industrial LLC and vice-chairman of the Shipbuilders Council of America.**

“Compliance with this law will impose significant, unnecessary financial burdens on our nation’s shipyards at a time when many are struggling to stay afloat. The withholding is a flat percentage of revenues from government payments that bears no relationship to companies’ taxable incomes and will restrict cash flow needed for day-to-day operations and investments. In addition, the administrative and capital investment costs that compliance with three percent withholding will impose on businesses will be substantial, and the mandate will be exceedingly complicated to implement.”

Since the rule was added by the Senate in 2006, Rep. Blumenauer’s office has received

hundreds of letters from businesses, trade associations and local governments calling for repeal, including the Associated General Contractors of America, the National Underground Contractors Association, the National Association of Counties, the National Association of State Procurement Officials, the American Farm Bureau Federation, the Edison Electric Institute, the American Society of Civil Engineers, and the American Institute of Architects.